

BABY STEPS TO ENHANCE LIFE INSURANCE

The proposals outlined in the concept paper for the life insurance and family takaful industry are aimed at supporting its long-term growth and development. What will their implementation mean for consumers? *By Emily Chow*

In the hope of enhancing the life insurance and family takaful industry, Bank Negara Malaysia issued a concept paper last November, seeking feedback on three key areas — allowing industry players greater operational flexibility in promoting product innovation, diversifying distribution channels and strengthening market conduct for consumer protection.

The proposed framework is aimed at achieving an insurance and takaful penetration rate of 75% — it stood at 54% in 2012 — based on the government's Economic Transformation Programme target.

According to Lim Yan Chang, director of financial advisory and insurance firm WINGS Alliance, the concept paper may also have been proposed to address the central bank's concerns about the country's retail insurance and investment growth, which currently isn't in line with the government's aim of achieving high income nation status.

"Based on the idea that each person owns one insurance policy, our population now is 20% to 30% insured. But that's not necessarily the case because some people hold more than one policy," he says. "Malaysia is underinsured, especially on the takaful side."

Aimed at giving insurance and takaful operators greater operational flexibility, the concept paper proposes the removal of limits on agents' commissions, which are currently regulated by Bank Negara. Industry experts commend this, saying that the move would propel the industry forward, as sophisticated products should come with higher commissions instead of standardised rates.

According to Julie Ng, head of insurance ratings at RAM Rating Services Bhd, the move will also create a more efficient industry. "While it is just a concept paper that hasn't been finalised, Bank Negara aims to promote greater development and innovation in the industry by allowing players to have more flexibility in structuring and marketing their products. This will stir up competition, as each operator will be able to determine its own commission structure, depending on its business strategy and cost overheads."

The concept paper also suggests a change in the minimum allocation rate, whereby a percentage of the policyholder's or takaful participant's contribution is apportioned to his or her unit fund before charges are deducted for operating expenses (see table on page 26).

The Association of Financial Advisers (AFA) president Alfred Sek thinks this will benefit consumers a lot as the proposed rates will increase their value proposition. "This will not affect existing policies if implemented, but for future consumers, a bigger percentage of their insurance premiums will be allocated towards their investments [compared with current rates]," he says. "Outside of that [the minimum allocation rate], the rest of the premium goes towards covering distribution costs, including commission and management expenses."

The question, however, is whether insurance or takaful operators will charge lower or higher agent commission rates if the limits are removed and a minimum allocation rate is implemented.

Sek says this will depend on the insurance operators, as they will have the flexibility to structure the pricing in whatever way they want. "This means that if you pay [the operator] a premium of RM1,000 in your first year, they must give you back RM700 for your investment account. How they split the remaining RM300, between paying their agents and covering management expenses, is up to them. If they want to pay [agents] more, it will be at their expense, but at least the consumer's portion is protected."

While the minimum allocation rate is seen as a positive measure in protecting consumer welfare, Lim worries that this will encourage people to opt for investment-linked products over pure protection ones.

"Insurance is the foundation of financial planning, which has to come before any other investing consideration," he says. "Assuming people flock to this for investment purposes [because of the minimum allocation rates], wouldn't it signify a disconnect with the concept of financial planning?"

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mention that regulators will look at removing commission limits for non-investment-linked products in the future.

DIVERSITY IS KEY

The concept paper also proposes the diversification of product distribution channels. This includes aligning the commission rates for non-investment-linked products between agents and bancassurance or bancatakaful channels (currently, commission rates for bancassurance or bancatakaful channels are lower than those for corporate agents), creating direct distribution channels to sell products and promoting the role of financial advisers.

“When they talk about creating a direct distribution channel, it could refer to an insurance company setting up a physical shop. But this might not work in every part of the world, and it would incur a lot of costs,” says Lim. “They could also mean setting up an online platform, but the insurance company would have to disclose sufficient product information so that people are better informed when making a purchase.”

However, Lim has doubts about how effective an online platform will be as a distribution channel. It is fine if you are using it to buy items such as clothes or IT gadgets, he opines, but insurance products are something else.

“You buy insurance when you don't need it, and oftentimes you only find out about the details of your policy when you need coverage the most,” he says. “There are also several types of insurance policies and each company calls them by different names. Will people be able to differentiate between the products on their own, or will they still prefer to seek the advice of a financial adviser or planner?”

Ng shares Lim's concerns about selling policies online, saying that it will be challenging for operators to command volume this way.

“Unlike general products, such as



SELECTED LIFE INSURANCE/TAKAFUL INVESTMENT-LINKED PRODUCT ALLOCATION RATES

POLICY YEAR	ANNUAL PREMIUM/CONTRIBUTION (%)											SINGLE PREMIUM/ CONTRIBUTION/TOP-UP PREMIUMS/CONTRIBUTION (%)
	1	2	3	4	5	6	7	8	9	10	11 ONWARDS	
Proposed allocation rate	70	70	70	80	80	80	90	90	90	90	100	93
Current allocation rate												
Conventional insurance companies (product)												
AIA Bhd (A-LifeLink)	40	40	70	75	90	90	100	100	100	100	100	95
AXA Affin Life Insurance Bhd (Wealth Invest & Wealth Protector)	40	50	60	70	90	90	100	100	100	100	100	95
Allianz Life Insurance Malaysia Bhd (PowerLife)	40	55	70	75	80	90	100	100	100	100	100	95
AmMetLife Insurance Bhd (AmMetLife Link)	50	55	75	75	90	90	100	100	100	100	100	95
Etiqua Insurance Bhd (Elite-Link)	40	50	70	70	85	85	100	100	100	100	100	95
Gibraltar BSN Life Bhd (Smart-Link)	40	50	70	70	80	80	100	100	100	100	100	95
Great Eastern Life Assurance (Malaysia) Bhd – (SmartProtect Essential)	43	43	76	76	85	85	100	100	100	100	100	95
Hong Leong Assurance Bhd (HLA EverLife Plus)	45	50	76	76	90	90	100	100	100	100	100	N/A
Manulife Insurance Bhd (Manulife Saver)	40	45	70	70	85	90	100	100	100	100	100	N/A
MCIS Insurance Bhd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prudential Assurance Malaysia Bhd (PRUlink One)	40	50	60	70	90	90	100	100	100	100	100	N/A
Sun Life Malaysia Assurance Bhd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tokio Marine Life Insurance Malaysia Bhd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Zurich Insurance Malaysia Bhd (Zurich Flexi Life)	40	50	70	70	90	90	100	100	100	100	100	N/A
Takaful operators (product)												
AIA PUBLIC Takaful Bhd (A Life Link-i)	40	40	50	70	80	80	100	100	100	100	100	95
AmMetLife Takaful Bhd (WealthCare i-style)	40	55	65	70	80	85	100	100	100	100	100	95
Etiqua Takaful Bhd (Elite Takafulink)	40	40	50	70	85	85	100	100	100	100	100	N/A
Great Eastern Takaful Bhd (i-Great Damai)	43	43	76	76	85	85	100	100	100	100	100	95
HSBC Amanah Takaful (Malaysia) Bhd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hong Leong MSIG Takaful Bhd (HLMT i-save)	42	53	67.50	67.50	77.50	77.50	96.50	96.50	96.50	96.50	96.50	N/A
MAA Takaful Bhd (Takafulink)	40	50	70	70	80	80	100	100	100	100	100	N/A
Prudential BSN Takaful Bhd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sun Life Malaysia Takaful Bhd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Syarikat Takaful Malaysia Bhd (Takaful myGenLife)	45	50	70	75	85	85	100	100	100	100	100	N/A
Takaful Ikhlas Bhd	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*The above data was compiled on Sept 10 and 11, 2014, from the websites, customer service hotlines and respective agents of the above-mentioned insurance and takaful operators. N/A indicates the information was not available or provided at the time of research.

**One investment-linked insurance/takaful product was selected per operator as a sample based on its specificities. They generally provide protection in the event of death and total and permanent disability (TPD) of the policyholder, whereby TPD protection is available before the age of 65. It does not represent the rates of other products provided by the same operator.

***This list is not exhaustive and the information could have changed since the time of research. Please refer to the respective insurance or takaful operator for further information.



Ng (Sam Fong)

fire and motor insurance, which are standard products where people know what they are buying into, each life and family takaful policy can be structured differently with various pricing and benefits. It is a tall order on the average customer's end finding out which policy best suits his needs on his own," she says.

"However, these proposals are meant to promote better consumer empowerment and improve the professionalism of the agency force. Where you can be more efficient in terms of direct distribution, you try to achieve that, so that the agent can concentrate on selling the more unique or complex products that actually need the interaction."

In the concept paper is a proposal for an online product aggregator that will serve as a convenient reference point for consumers. "It would be run by a third party with a financial adviser's licence, so consumers can compare and buy products online," says Sek. "This will help consumers make comparisons and a more informed decision."

Sek is also bullish on the central bank's proposal to promote financial advisers as a viable distribution channel for insurance or takaful products. Besides increasing insurance penetration rates, it will promote the growth of the financial advisory industry, he says.

Bank Negara has proposed three initiatives to encourage the proliferation of financial advisers — to reduce the paid-up capital requirement to RM50,000 from RM100,000 currently, to broaden the qualifying

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requirements for qualification to become a financial adviser, and to get insurance and takaful operators to offer their entire range of products to financial advisers to sell.

"Currently, only some insurance companies are offering their products for financial advisers to sell because they want to protect their agencies. But this isn't fair to consumers because we can't provide unbiased advice," Sek says. "Buying from a bancassurance channel is also different, as they are a bank-backed panel that gets paid for distribution rights. Financial advisers aren't tied to anyone."

In Sek's opinion, this will be a win-win situation for insurance or takaful operators and financial advisers, because operators won't have to spend as much on their agency force any more. "Operators don't fund us, and since Bank Negara wants to have 30% of regular insurance premiums come from non-agency channels, this will be a key performance indicator for insurance companies to fulfil," he says.

"Plus, if the adviser doesn't do a good job, consumers can complain and the financial adviser can have his licence suspended. Bank Negara has wanted to professionalise the agency channel for many years now, but that has been tough. At least with financial advisers, they are regulated by the central bank."

Sek points out that these incentives are only for financial advisers licensed by Bank Negara, and do not apply to financial planners who are under the jurisdiction of the Securities Commission Malaysia.

"Bank Negara intends to implement this concept paper next year. How much of it will be implemented, I don't know, but the accommodation for the financial advisory industry is already in place," he says. "The challenge will be in how it is implemented, as having regulations without enforcement isn't effective." **TM**